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An evaluation of the practices of the Missoula County Assessor's office

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AN EVALUATION OF THE PRACTICES OF THE MISSOULA COUNTY ASSESSOR'S OFFICE

By

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CHAPTER I

THE PROPERTY TAX STATEMENT OF PURPOSE

The property tax has long been a main source of revenue for states and local governments. In some states, revenue consists almost entirely of property tax, and in other states, the sales tax and personal income tax provides much of the necessary income. Many cities rely on property for revenue because the state has already preempted income taxes for itself. However, the city is not responsible for providing a means for redistribution of wealth or fighting economic changes nationwide.

> Therefore principal policy objectives of local taxation should be obliged to aim no higher than providing 'sufficient' revenue for local services without unnecessarily disturbing existing patterns of wealth distribution or magnifying inflationary or recessionary trends.[1]

It is, of course, necessary for the city to raise funds for it to continue functioning. The services offered by the city to its residents are generally those

[1] Larry M. Elison, The Finances of Metropolitan Areas, (Ann Arbor, Michigan: University of Michigan Law School, 1964), p. 29.

most used and required. The city and county provide fire and police protection, road repair, sewer service, and most important and costly, schools. But since the city is not seeking a change in the distribution of wealth, it should: 1) have proportional taxes, unless they are based on service charges or are regressive where it can be shown that those paying most receive the most benefit, 2) have a solid base for the tax structure, but be flexible enough to allow for unexpected fiscal difficulties, and 3) have administrative costs kept to a minimum.[2] Since some of these spendings can be geared to the general economic level, the base must provide for services such as education, police, and sewers, which will be relatively constant, and also for those that fluctuate like highways and welfare.[3] The city should provide all services at a minimum cost to the taxpayer consistent with the requirements of the populace.

The basis of this paper is the hypothesis that the Missoula County Assessor's Office assessment procedures are inefficient to the extent that appreciable amounts of tax money are being lost. The emphasis will be on the evaluation of land and building assessments, although

[2] Ibid., pp. 29-30. [3] Ibid., p. 31.

there will be some comment on the function of the assessor's office in its administration and efficiency of operation. This is not an indictment, but rather an investigation into the operation of the office and the way in which assessments are made.

It is the intention of this paper to use interviews with homeowners and persons working in the assessor's office to gain information about the operation of that office. The interviews with the County Assessor and other persons in that and the associated office and with homeowners will be used to analyze the land reclassification office and assessor's office.

There will be constructive as well as indictive criticism in order to obtain the fairest judgment of these offices.

CHAPTER II

FUNCTIONS AND ACTIONS OF THE MISSOULA COUNTY ASSESSOR'S OFFICE

It is the function of the County Assessor's Office to assess all the land and property in the county of Missoula. This assessment includes land, improvements, and personal property.

Missoula differs from other large counties in that it is the only such county in which the county assessor is also the director of land reclassification. This additional duty carries no increase in renumeration. The duty of the land reclassification office is to classify and assess all land and property in the county every five years or at the time of any change of title.

There are eight full-time employees in the assessor's office, excluding the county assessor himself. There are six employees in the land reclassification office, three men and three women. All the full-time employees in the assessor's office are women, and one man, an ex-contractor working part-time, is also employed there.

Since the county assessor is the director of both offices, it is possible for him to use personnel from either office to staff that particular operation which

is busiest at any given time. The County Assessor does this as infrequently as possible since many of the employees resent working in an organization which is not their own.

It is the land reclassification office which does the actual evaluation of land and property. This action is done under many rules and regulations which have been defined in statute and operational procedures by the state and county.[4]

The first function of the reclassification office with which this paper is concerned is to establish the market value of a piece of property. Market value is defined in the Montana Appraisal Manual as:

1. The highest price in terms of money which a property will bring if exposed for sale in the open market, allowing a reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.
2. The price at which a willing seller would sell and a willing buyer would buy, neither being under abnormal pressure.

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[4] Any information, statistics, or statements of fact without reference to the sample survey or another source has come from the County Assessor, records from the assessor's office, or the Office of the Clerk and County Recorder, Accounting and Audit.

2. The price expectable if a reasonable time is allowed to find a purchaser and if both seller and prospective buyer are full informed.[5]

However, there are some modifications which must be made to this market value before taxes are to be assessed. The state of Montana has defined several terms to be used in the assessment of property:

Public School Budgeting Terms:

Assessed Valuation--according to Montana law, this is the true and full value of property, but in certain cases, is a lower figure arrived at by a percentage reduction. This valuation is used as the basis for determining bonding limitations and for arriving at taxable valuation.

Taxable Valuation--this is a percentage of assessed valuation with the percentage determined according to the type of property as classified by law, ranging from 9 to 10 per cent of assessed valuation. This valuation is used as a basis for applying mill levies.[6]

In Missoula, full market value is used. However, the state allows a deviation ranging from 87-93 per cent. Missoula uses 90 per cent as the deviation. This is

[5] Montana State Board of Equalization, Montana Appraisal Manual, (Helena, Montana: May 4, 1965), p. 2.
[6] Chapter No. 270, Laws of 1965.

termed the sound value of the property. The assessed value is 40 per cent of the sound value. Finally, the taxable value is 30 per cent of the assessed value. To determine the taxes due on a piece of property, the millage is multiplied by the taxable value. An example is in order.

Assume that a piece of property and improvements has a market value of $20,000.

$20,000 times .9 equals $18,000, the sound value,

$18,000 times .4 equals $7,200, the assessed value,

$7,200 times .3 equals $2,160, the taxable value,

.9 times .4 times .3 equals .108,

.108 times market value equals taxable value.

If this property were in School district 1-in, City of Missoula, the total mill levy of 256.210 would be multiplied times the taxable value to arrive at a tax due of $553.41. This is exclusive of any Special Improvement District taxes.

In the actual procedure of assessment, the Montana Appraisal Manual gives eight basic classes of quality for single family dwellings:

1. If-1 substandard
2. If-2 poor grade
3. If-3 fair grade

4. If-4 slightly below average

5. If-5 average

6. If-6 good

7. If-7 very good

8. If-8 excellent[7]

The manual gives visual and physical descriptions of each class of dwelling. Values for the eight grades are approximately 10 per cent apart, but extra notations may be made about the dwelling. A grade of If-5 could be graded plus or minus a few per cent if the appraiser deems it necessary to the true valuation of the building.

Quality is also judged on size. A small house in excellent condition might be graded no higher than If-6. Age is of course important in determining the depreciation charged against the house.

According to the Assessor's Office, even though the improvements, which include the building, will depreciate in their actual condition, the overall value of the property should increase about 5 per cent per year.

Normal depreciation is as follows:

First or initial year------3 per cent
The following four years---1-1½ per cent per year
The next five years--------1-1¼ per cent per year
Thereafter----------------1 per cent per year[8]

[7] Montana Appraisal Manual, p. 17. [8] Ibid., p. 19.

Even though the land reclassification office is required to assess land and improvements every five years, in Missoula county the average life of a mortgage is less than five years. This is not always true for commercial property. All property, commercial or private, is taxed at the same rate for each school district.

Finally, it might be well to note that personal property, by which is meant all furniture, appliances, and possessions in the owned house, is taxed not by its own value, but at a rate of ten per cent of the value of the improvements on a piece of property. In this case, improvements are meant to include the building on the land.

CHAPTER III

EXPLANATION OF SAMPLE DATA

It was the intention of the interviews conducted for this study to examine in part several of the homes and homeowners in Missoula county to determine how well the function of the land reclassification office was performed.

Of the homes that were assessed during the last year and whose owners lived in these homes, a sample of 225 was selected at random to constitute a sample of Missoula county. Each interview was conducted in person with the homeowner. The questions used were designed to determine how well the individual assessors had performed their jobs and how well the homeowner felt the assessment coincided with his own view of the worth of the house.

Not all of the homeowners selected in the sample were willing to respond to questions. Even though the data contained in the first four items of the questionnaire (see sample interview sheet, page 23) were obtained for all 225 homes from the assessor's office, 113 homeowners declined to respond. All persons were assured that all information would be kept confidential, and a final response of 112 persons was obtained.

The majority of the interviews made in this sample were made within the city limits of Missoula. The population of the county is such that most of its residents live within the city limits, or at least within a few miles of the city itself. Of the 112 interviews made, 92 were inside the city. An additional 15 were no farther than 10 miles from the city, and only five were at a distance greater than 10 miles.

According to the present County Assessor, there are approximately 13,240 households in the county of Missoula. This number includes single people, widows, widowers, divorcees, families with no children, and families with any number of children. There are 4,477 specified owner occupied homes in Missoula county.[9]

Even though only 112 of 225 householders were willing to be interviewed to the extent that all questions on the questionnaire were completed, later analysis will show that the information obtained in the survey is statistically significant.

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[9]U.S. Department of Commerce, Bureau of the Census, 1970 Census of Housing, advance report HC(V1)-28, Montana. (Washinton, D.C.: U.S. Government Printing Office, September, 1970), p. 8.

CHAPTER IV

EVALUATION OF THE ASSESSMENT FUNCTION

The administration of the County Assessor's Office is under the direction of the County Assessor. Since the present Assessor took office, the staff of the assessor's office has been cut. In 1967, there were 13 women working in the assessor's office, and 6 people working in the land reclassification office. Currently, there are 8 women in the assessor's office and the reclassification office has maintained the same staff as before. It is almost impossible to say whether or not the amount of work done by the smaller staff is of equal quality to that of the previously larger staff or not. However, all the duties are being performed and all deadlines are being met.

The cost of operating the assessor's office has gone up since 1967, but not at a rapid rate. The dollar cost of operating the assessor's office in 1967 was $54,544, and $56,110 for 1970. This is only an increase of 2.3 per cent spread over the three year period. In 1970-71, both offices operated at a cost to the taxpayers of .14 mills less than it did in 1967.

Prior to 1967, 452 people went to the State Board of Equalization with complaints and protests about the levy of their taxes. Since 1967, six have gone to the Commissioners, and only two to the State Board. Mr. Barclay said that these people really only wanted to know how the mechanics of the assessment worked, and how the taxes were levied.

In the evaluation of the interviews, there were several points that began to make themselves quite apparent. The majority of the people noted that the assessment of their property at the latest assessment was higher than at previous assessments, and the majority (60.7 per cent) gave a negative response to question number eight. Even though the assessments were made by men who had been doing this job for several years, many people felt that the assessments were too low. Table 1 (page 24) shows the distribution of the market values of the homes involved. The values of the homes were spread from $9,700 to $24,500 and the mean value was $17,100. The standard deviation for the whole sample was $2,466. The size of the sample in relation to the whole population is not quite large enough to allow a truly accurate estimate of the

standard deviation for the population,[10] but it does have some relevance in considering the makeup of the sample itself.

One of the most important results of the survey was that sixteen of the people interviewed stated that improvements to the property and building had not been noted on the most recent assessment. These improvements included heating and cooling changes, the erection of a storage shed in the back of the property, modifications to the structure on the land, and two added fireplaces. That the assessors completely missed or avoided these improvements when assessing the property points to serious neglect. It was determined that more than one person was involved in overlooking the improvements.

Possibly the most revealing part of the survey was question seven. This asks how the assessor performed his job. There were avariety of answers, ranging from very well to profanity. Of course, these answers are linked with the two following questions, and if the respondent answered number eight in the negative, then the consensus must have been that the assessor did not do his job well.

[10] Kyohei Sasaki, Statistics for Modern Decision Making, (Belmont, California: Wadsworth Publishing Company, Inc., 1968), p. 118-119.

Table 2 shows that of the persons who answered no to question eight, the values of the homes and related statistics are significantly different from those in the sample as a whole. The mean value of the homes assessed is $1,550 higher, and the standard deviation is less. This shows a concentration of slightly higher values, and less spread of these values in the sample. Three standard deviations of the homes in Table 2 will not encompass the whole spread of the entire sample. So it is apparent that the inefficiency is somewhat localized, concentrating on homes of a small grouping of price ranges. Speculation on the reason for this could include the reasoning that this tends to include the majority of homes, but in a slightly higher price range, but does not allow deviations in the lower and upper price ranges. A considerable amount of further investigation might show that the distribution of deviations would be skew as is slightly apparent in Table 2.

It is important to establish a reliability factor in any sample. A $\underline{t}$ distribution applies well in this case. Determining the $\underline{t}$ value for the two tables is not difficult.

$$t_{n1+n2-2} = \frac{\bar{x}_1 - \bar{x}_2}{s_p \quad 1/n_1 + 1/n_2}$$

where $\bar{x}_1$ = mean of data in table 1

$\bar{x}_2$ = mean of data in table 2

n_1 = sample size in table 1

n_2 = sample size in table 2

s_1 = standard deviation 2566

s_2 = standard deviation 1683

$$s_p^2 = \frac{(n_1-1)\, s_1^2 + (n_2-1)\, s_2^2}{n_1+n_2-2}$$

Making the necessary computations, the value for t_{178} is 4.57. In Sasaki, page 520, the $\underline{t}$ value for any sample size greater than 30, with a reliability of .995 must be greater than 2.576. Since this is a single-tail distribution, the value of $\underline{t}$ equal to 2.576 has a two-tail distribution reliability of .99. So there is a .99 reliability factor that the statements made by 68 persons in Table 2 are statistically significant. It is definitely meaningful to say that the assessors did not make fair assessments in these cases.

There is another point in the difference between the two tables. Since it is expected by the assessor's office that a piece of property will increase in value by approximately five per cent per year, then this should be true for a sample of these homes. With information from the County Assessor's Office, it was possible to compare the most recent evaluation with those made previously. For the whole sample,

the average yearly increase in value was 4.7 per cent, only slightly lower than expected. However, for the homes included in Table 2, the average yearly increase was only 3.2 per cent. This may be partly due to the fact that the assessor missed some improvements that would keep the average at the level expected and that the assessments were lower over-all in this group. Since the sample of 68 homes had a lower average yearly increase, but the sample as a whole was near the level expected, then it is possible to to conclude that many of the homes were over-valued. A large variation is not necessary, merely one to make up for a 1.5 per cent deviation in 68 homes. So it appears that homes in the lower value range and homes in the upper range are more highly assessed than are homes in the center of the market.

There is a possible explanation of the above. Lower priced homes often are not improved to any great extent. The value and condition of the home does not always make it practical to spend considerable time and money on improvements. Remembering that homes assessed at higher values are either quite new, having many extras, or are older, but in excellent condition and quite large, it is less likely that these homes will have many improvements made during the years. Then these homes, in

the upper and lower ranges, would be more easily assessed than those in the middle ranges, and any negligence in real estate assessment activity would be apparent in the middle range itself. A causal approach would show more deviation in those homes with more to miss, such as those shown in Table 2.

It is the value of the property as a whole that increases. As shown previously, the value of the building decreases. Since personal property taxes are levied on the improvements, the revenue from this tax will likewise decrease. But it is possible that there is considerable revenue being lost here. Assume that the value of improvements is two-thirds the total value of the property. If then the total value of one plot was $20,000, then the improvements and the personal property tax base would be about $13,320. At a personal property tax rate of 10 per cent, the taxable value would be $1,332 for all the unattached items in the home. Carpeting, drapes, all appliances, television, stereo equipment, and furniture, books, jewelry, clothing, and all personal items would very likely have a value of considerably more than $1,332.

Recommendations for change follow in the next chapter.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

It is the conclusion of this paper that the County Assessor's Office and land reclassification office are inefficient in their operation and that several actions might be taken to rectify the situation.

It seems that the operation and administration of the County Assessor's Office are not outrageously costly, but further study should be made to determine the efficience of that office. If additional personnel can be employed so that their work will add taxes to the county revenue in excess of their salary, it should be done.

Relatively major changes should be made in the land reclassification office. The personnel seem to be lax, and often careless and negligent. The State Board of Equalization has made several recommendations that are pertinent:

1. The Montana constitution should be amended to allow the position of county appraiser to be an appointive office instead of an elective one.
2. The legislature should require the Board of Equalization or other agency to establish professional qualifications and certify applicants as to fitness for employment for the job.

3. Assessors should be appointed without requirement for prior county residence for an indefinite period and be removed at any time for cause.

4. The State legislature should set or put limits on salaries paid to assessors and appraisers.

5. Real estate appraisal and property assessment function should be placed under one office, with a director as qualified as above.[11]

There are other recommendations which, if followed, might improve the quality of assessment. The State Board has recommended the passage of a "Realty Transfer Act" or similar act so the department can secure true and accurate data to be used in sales ratio studies.[12] Follow-up assessments should be made on a random basis to check on the performance of assessment duties. In order to maintain current records, it is recommended that assessments be made at least once every three years or at change of title and additional personnel be hired if necessary to carry out this action.

There is always the possibility that the efficiency of tax-gathering is lessened when there are two organization, e.g., the city-county and state, collecting taxes from the same source. It is often less difficult for a single organization to perform several functions

[11] 24th Biennial Report of the Montana State Board of Equalization, for the period July 1, 1968 to June 30, 1970. (Helena, Montana: 1970), p. 1

[12] Ibid.

than for several organizations to perform similar, but separate, operations. Professor Alfred G. Guehler, in results of a study on state and local taxes, has said, "Where sales or income taxes are employed by the state and local taxes are added, administration should be in the hands of the state and the basis of taxation should be uniform."[13] This may be true when the city or county adds a like tax to the burden of state taxes. It is difficult, however, for the state to assume dissimilar functions, especially when the county is in a superior position to judge the value of property. The city-county should be in a better position to understand its own growth and needs.

> In the appraisal of property, the assessor must have an understanding of the hopes, the desires, and attitudes of the people in the community. For people's ambitions and desires influence the future of a community and the values of property.[14]

There is an area of reasonableness in the ranging of the property tax from 1½ to 2 per cent of the

[13] National Tax Association, Proceedings of the 62nd Annual Conference on Taxation, 1969, (Columbus, Ohio: 1970), p. 231.

[14] John H. Keith, Property Tax Assessment Practices, (Monterey Park, California: Highland Publishing Company, 1966), p. 43.

> market value of the property.... A tax burden of more than 2 per cent, however, tends to be a limiting factor and interferes with the normal and progressive growth of an area.[15]

In the example given previously, it was shown that a property with a market value of $20,000 in a particular school district would pay $553.41 in taxes. This is 2.77 per cent of the market value of the property. It is true that high property taxes lower the value of a piece of property in the market, which in turn will lower the tax return at a given rate. This may consequently increase the tax rate to maintain a level of revenue for the city or county. Other sources of income for the city and county should be investigated.

"Never has so much money been raised from so many people so inequitably as in the current administration of the local tax on real estate."[16]

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[15] Ibid., p. 41

[16] New Jersey Commission on State Tax Policy, The General Property Tax in New Jersey-A Century of Inequities, (New Jersey, 1953).

Interview Number:

1. Most recent market valuation:

2. Total county tax levy (exclusive of SID taxes):

3. Had you made any improvements on the land or buildings during the period preceeding the most recent assessment?

4. If so, of what nature?

5. Were these improvements noted on the most recent assessment?

6. Was your property worth more at this assessment than the last one?

7. How did the assessor perform his job?

8. Do you feel the assessor gave a fair assessment of your property?

9. If not, do you feel the assessment was too high or too low?

10. Have you ever appealed you assessment?

TABLE 1

Distribution of Assessed Market Values of Homes in Sample

Value	f
$9,000--$9,999	1
10,000--10,999	1
11,000--11,999	1
12,000--12,999	1
13,000--13,999	4
14,000--14,999	14
15,000--15,999	14
16,000--16,999	18
17,000--17,999	19
18,000--18,999	14
19,000--19,999	13
20,000--20,999	5
21,000--21,999	4
22,000--22,999	1
23,000--23,999	1
24,000--24,999	1
	f = 112

$\bar{x}$ = $17,100
standard deviation = $2,466

TABLE 2

Distribution of Assessed Values of Homes of Interviewees with Negative Response to Question Eight in Questionnaire

Value	f
$13,000--13,999	1
14,000--14,999	1
15,000--15,999	2
16,000--16,999	8
17,000--17,999	9
18,000--18,999	17
19,000--19,999	12
20,000--20,999	9
21,000--21,999	5
22,000--22,999	2
23,000--23,999	2
	f = 68

$\bar{x}$ = $18,650
standard deviation = $1,683

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